

**MINUTES OF THE ELECTRICITY NETWORKS STRATEGY GROUP (ENSG)**

**THE WESTMINSTER CONFERENCE CENTRE, LONDON**

**1030 MONDAY 29<sup>th</sup> SEPTEMBER 2014**

**Present:**

**Chair**

Ofgem

Kersti Berge (Chair)

**Members**

National Grid

Richard Smith (for Mike Calviou)

National Grid

Andrew Hiorns

Scottish Hydro Electric Transmission plc

Andy Huthwaite

Scottish Power Transmission Limited

Colin Taylor

Scottish Power Transmission Limited

Cathie Hill

UK Power Networks

Barry Hatton

Transmission Investment LLP

Chris Veal

EDF

Mark Cox

RWE

Fruzsina Kemenes

Renewable Energy Systems

Patrick Smart

Renewable-UK

Zoltan Zavody

Northern Power Grid

Mark Drye

Scottish Renewables

Michael Rieley

The Crown Estate

Chuan Zhang

Scottish Government

Damon Hewlett

Welsh Government

Ron Loveland

**Also in Attendance**

Ofgem

Anna Kulhavy

Ofgem

Laura Edwards

Ofgem

Adam Lacey

DECC

Rob Kinnaird

DECC

Paul Hawker

DECC

Giles Holford

DECC

Keith Evans

**Apologies**

Vattenfall

Robert Hensgens

Energy Networks Association

Paul Fidler

Centrica

Fiona Navesey

## **1. Welcome and Introduction including minutes and actions from last meeting**

1.1 The Chair welcomed participants to the meeting, highlighting that 29 September was a public holiday in Glasgow and apologising if it had caused any problems.

1.2 The meeting notes from the June ENSG had been agreed, circulated and published on the ENSG webpages. The list of actions and their status from the June ENSG, circulated ahead of the meeting, showed that all actions were either complete or would be discussed during this meeting.

## **2. Supply Chain and Skills**

2.1 SHE Transmission presented a joint TO paper, that had been circulated to the group prior to the meeting, on supply chain and skills issues faced by the companies and their approaches to resolving them. The main messages were:

- The 8 year price control provides greater certainty and helps engagement with the supply chain;
- The supply chain has consolidated which has reduced competition. Cable manufacturing is a particular issue due to the lack of suppliers globally;
- Uncertainty on needs cases can work against long-term contracting strategies;
- It is a global market place and TOs are relatively small players which impacts on their leverage with suppliers;
- Standardising requirements helps manage costs;
- TOs work together where appropriate e.g. through Joint Ventures and sharing equipment supplies;
- SHE Transmission may be seen as last in line by contractors who see greater security of work from NGET and SPT; and
- On skills, engineering and project management were particular areas of concern. TOs were working with suppliers, using apprenticeships and reaching out to education establishments to help address this.

2.2 Northern Power Grid and UK Power Networks said that DNOs faced similar issues. They have workforce renewal programmes, but noted that the step up in activity from DPCR5 to RIIO-ED1 was not as great as for the TOs from TPCR4 to RIIO-T1.

### Discussion

2.3 The following points were raised in discussion.

- It was agreed that visibility and certainty of plans was key, and that the RIIO 8-year framework had been helpful in providing more certainty. However Ofgem's mid-point review of RIIO had created some uncertainties. Ofgem responded this was something it had noted and would take into account.

- A key challenge for National Grid was keeping suppliers engaged given the impact of generation uncertainty on new network investment.
- DNOs highlighted challenges in retaining staff in the face of competition from other network companies and other sectors e.g. rail electrification.
- It was suggested that Government needed to do more in the networks supply chain and skills area, akin to work undertaken on renewables and nuclear.

2.4 When asked whether supply chain issues had any material impact on the delivery of RIIO-T1 commitments, the following points were made:

- The timing of major projects may put pressure on supply chains
- Resources are tight, with Overhead Lines getting more expensive
- There is ongoing upward pressure on the cost of distribution network equipment.

2.5 The Chair suggested that, as there were issues where more clarity would be useful and more work might be beneficial, the joint TO paper be updated and a further discussion held at the December or March ENSG.

**Action 1: SHE Transmission, with support from other TOs and DNOs, to refine the supply chain and skills paper to give a better idea of the global market place and the UK share, inward investment opportunities for the UK and opportunities for more local content, types of technology, skill profiles and how these will be dealt with going forward, and what more Governments, Development Agencies, etc can do to help.**

**Action 2: ENSG Secretariat to discuss with BIS the relevant skills needs in the UK and programmes in place to meet these, working with Scottish Government where appropriate.**

**Action 3: Skills and supply chain to be revisited as agenda item for either the December or March meeting; the Secretariat to consider the best timing.**

### **3. Strategic Wider Works (SWW) Lessons Learnt**

3.1 Ofgem presented some of the key lessons learnt from the SWW process, with suggestions on where the process could be streamlined going forward. The main lessons were the need to agree default basic assumptions for projects, better engagement between Ofgem and TOs prior to submission, better engagement between the TOs and Ofgem on project management, and escalation of issues more promptly to senior management. SHE Transmission also gave a presentation on main lessons learnt from its perspective. These were broadly in line with Ofgem's assessment, but also included the need to consider and agree any wider benefits that a project might bring.

3.2 On next steps, Ofgem said that it planned to work with TOs to improve the processes and develop templates for CBA modelling and key data inputs over the next 2 months. It aimed to publish new guidance in December.

### Discussion

3.3 Discussion focused on the following areas.

- The need for better engagement between transmission and distribution particularly where a SWW project would have an effect on the DNO network. Ofgem agreed this was important and that it would be covered in the updated SWW guidance.
- The need for close liaison between TO outage planning and SO System Operation concerns, and ensuring SO concerns are met in a way that enables outages to be taken and SWW projects to proceed.
- Clarity on how wider benefits, such as supply chain and skills, fed into the SWW assessments would be helpful and also how the SWW process fitted with DECC's Strategy and Policy Statement (SPS). Ofgem agreed and added that it would take the SPS into account. This would also be covered in the revised guidance.
- Incorporating wider process costs in Cost-Benefit Assessments. For instance, uncertainty in Government policy or in regulatory decisions will incur a premium in grid costs. How do these additional costs compare with the potential savings from said policies and decisions?
- The need for wider engagement in developing the guidance. It was agreed that it would be beneficial to hold a separate SWW session in late November, before the finalisation of the updated SWW guidance. Ofgem would also consider whether to hold a public consultation.

3.4 The Chair concluded that this had been a useful discussion and encouraged ENSG members to submit any further points/questions to the ENSG Secretariat. These would be taken into account at the SWW session in November.

**Action 4: ENSG Secretariat to organise a follow up SWW Lessons Learnt session in late November and consider consulting publicly on draft SWW guidance.**

**Action 5: ENSG members to e-mail key questions for discussion to the Secretariat.**

### **4. TO network development and discussion including TO Major project updates**

4.1 The TOs provided an update on particular projects where there had been significant developments.

- On the Western HVDC there were issues with the cable manufacture. Potential impacts, including on delivery of the project, were being assessed and the picture would be clearer in November. It was confirmed there would be on impacts on constraint payments but not on connections as this was a wider reinforcement.
- On the Scotland-England series compensation upgrade there had been control system issues which would delay the project by 3-4 months.
- In North Wales the withdrawal of the Celtic Array offshore wind project had affected the needs case.
- National Grid expected to submit its needs case for the Hinkley Connection by the end of October.

4.2 The Chair noted the proposed revised format of the quarterly TO Major Project Updates summary sheet. Due to time constraints she invited ENSG members to send any comments to the ENSG Secretariat.

**Action 6: ENSG members to send any comments on the proposed revisions to the TO Major Projects Update to the Secretariat.**

## **5. Integrated Transmission Planning and Regulation (ITPR)**

5.1 Ofgem presented a short update on its ITPR draft conclusions that had been published for consultation on 29 September. This covered its proposals on system planning, competitive delivery onshore, interconnection, multiple purpose projects and non-GB connections, and mitigating conflicts of interest.

5.2 The closing date for responses was 19 November, and Ofgem would be hosting a whole day workshop on 23 October. Ofgem planned to publish final conclusions in spring 2015 before implementing any necessary changes to licences. Changes to legislation might also be needed.

### Discussion

5.3 The following points were raised during discussion.

- On onshore competition, would incumbent TOs be able to compete for projects? Ofgem replied that it had not reached a conclusion on the institutional arrangements for bidding - it could depend on factors including the extent the TO had been involved in any pre-construction work and any conflict of interest. Ofgem explained that, in line with the RIIO-T1 final conclusions, onshore competition would be restricted to suitable projects captured under SWW during RIIO-T1. After RIIO-T1, Ofgem's intention was that any projects that meet the criteria should be subject to competition.
- The interaction between ITPR proposals on system planning and recent work by the Institution of Engineering and Technology (IET) recommending a

System Architect was highlighted. Ofgem explained that the IET work was wider than ITPR, but relevant to the enhanced System Operator role.

- Further information on the need for legislation was requested. Ofgem's view was that system planning arrangements could be introduced through licence changes, but it was still considering whether others may need primary legislation and would be working on this with DECC.
- The impact of potential onshore competition on transmission project cost certainty. Ofgem noted this and other issues raised. It would work closely with all parties involved to ensure any changes could be successfully introduced.

**Action 7: ENSG Secretariat to circulate ITPR presentation slides to attendees.**

## **6. Strategy and Policy Statement (SPS)**

6.1 DECC presented on its proposed SPS, which was designed to provide more regulatory certainty, increase alignment between the Government's energy policy and the way Ofgem regulates the energy sector, and help Ofgem achieve appropriate trade-offs between consumer costs, low carbon and energy security. Ofgem would be required to have regard to the strategic priorities set out in the SPS in carrying out its functions. It would be required to report annually on how it had, or planned to support them. DECC made clear that the SPS would not change Ofgem's remit or statutory duties. The SPS would replace the current environmental guidance for Ofgem. DECC was consulting until 17 October and would publish its Response in October/November. There would then need to be Parliamentary debates (December/January) before it was designated in early 2015 subject to Parliamentary approval. DECC offered to meet any ENSG members who wanted to discuss the SPS in more detail.

### Discussion

6.2 The following points were made in the discussion.

- It was noted that the SPS outcomes did not currently mention the 2020 renewable target. DECC explained that the SPS outcomes needed to be set at a high level and could not include specific targets, particularly as it was designed to last for 5 years and targets could change or be added. However the renewables target was mentioned in the document preamble.
- The potential relevance of the SPS to consideration of Scottish Island links was also raised.
- The SPS should offer Ofgem more confidence in making decisions that it knows are in the best interests of the consumer. Does it do this?

**Action 8: ENSG Secretariat to circulate SPS presentation slides to the group.**

## **7. AOB and next meeting**

7.1 On the Scottish Referendum outcome and subsequent announcement on a process for considering devolution across the UK, it was agreed that the ENSG should monitor developments which might impact on electricity networks. It could be an item for the December meeting if appropriate.

7.2 National Grid highlighted its work on the System Operability Framework (SOF) looking at potential impacts of changes to the whole electricity system on the transmission network. National Grid was consulting on this until 10 October and the Chair encouraged ENSG members to respond.

7.3 The Chair proposed the next ENSG meeting be in the first half of December and asked ENSG members to inform the Secretariat of any dates that would not be suitable by the end of the following week. The Chair also asked the group for any suggestions for agenda items for the December meeting as well as any feedback on the format of this meeting. It was agreed that the December meeting would last half a day to allow proper discussion of substantive items.

**Action 9: ENSG to monitor developments on devolved powers with potential impacts on electricity networks.**

**Action 10: ENSG members to feed into National Grid's SOF consultation.**

**Action 11: Next Meeting to be in the first 2 weeks of December. Members to let the Secretariat know of any dates that were not suitable. Also to provide any feedback on the format of this meeting and suggestions for agenda items.**